

# WASHINGTON STATE DEPARTMENT OF REVENUE

## SPECIAL NOTICE

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For further information contact:  
Telephone Information Center  
1-800-647-7706 or (360) 486-2345

Alternate Formats (360) 486-2342  
Teletype 1-800-451-7985

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### **Tax Changes on Dental Laboratories and Products**

#### **What does the new law cover?**

New legislation, Engrossed House Bill 1042 (Chapter 168, Laws of 1998), changes the taxation of dental laboratories and the products sold by dental laboratories. The new law changes the definition of the term “to manufacture” in RCW 82.04.120 to include:

The production or fabrication of dental appliances, devices, restorations, substitutes, or other dental laboratory products by a dental laboratory or dental technician.

Effective October 1, 1998 when the law goes into effect, persons operating dental laboratories will be classified as manufacturers. The tax rate under the Manufacturing classification is .484%. Prior to the law change, dental laboratories were subject to the business and occupation tax under the classification Service and Other Business Activities. The tax rate for the Service classification is 1.5%.

In addition to the business and occupation (B&O) tax change, retail sales tax exemption in RCW 82.08.0283 was expanded to include the following:

“ . . . dental appliances, devices, restorations, and substitutes, and the components thereof, including but not limited to full and partial dentures, crowns, inlays, fillings, braces, and retainers . . . ”

Previously, the Department held that dental products that replaced missing teeth constituted sales tax exempt prosthetic devices. The new legislation expands the types of products that are exempt from sales tax when sold by a dental laboratory.

#### **How does the new legislation change how dental laboratories report their tax liability?**

Because dental laboratories will be classified as manufacturers starting on October 1, 1998, the manner in which they report their tax liability will change significantly. First, the dental laboratory will have a lower B&O tax liability because they will be classified as a manufacturer and not as a service business. Their tax rate will be reduced from 1.5% to .484%.

The second change to the way dental laboratories report their tax liability has to do with specific requirements associated with the tax liability of manufacturers. Manufacturers are required to report their sales of manufactured products under two B&O tax classifications. They must report these sales under the Manufacturing classification, based on the value of products manufactured in Washington. They must also report the gross proceeds of these sales under either the Retailing or Wholesaling classifications of the B&O tax.

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Although the manufacturer will report tax under two B&O tax classifications on its tax return, the Multiple Activities Tax Credit (MATC) eliminates this double taxation by providing a credit equal to the lesser of the two taxes due. The MATC is computed on Part II of a form identified as Schedule C. More information about the MATC can be obtained by calling the Telephone Information Center at 1-800-647-7706.

### **Are there other changes that result from this legislation?**

Because dental laboratories are now classified as manufacturers, they are eligible for certain tax incentive programs. They are:

- ◆ Sales Tax Exemption for Manufacturing Machinery and Equipment;
- ◆ Changes to the Manufacturing Machinery and Equipment Sales and Use Tax Exemption Certification and Reporting Requirements;
- ◆ Changes to the Manufacturing Machinery and Equipment Sales Tax Exemption;
- ◆ Distressed Area Sales/Use Tax Deferral Exemption Program; and
- ◆ Distressed Area B&O Tax Credit for New Employees.

The sales tax exemption for manufacturing machinery and equipment is available statewide. Under this program, manufacturers are not required to pay sales tax on machinery and equipment that is used directly in a manufacturing operation. A manufacturing operation means the manufacturing of articles for sale such as tangible personal property. Machinery and equipment means industrial fixtures, devices and support facilities. The term does not include hand tools, items with a useful life of less than one year, buildings, and fixtures that are not an integral part of the manufacturing operation. The exemption applies to the outright purchase or lease of eligible equipment. Dental laboratories are eligible for this exemption beginning on October 1, 1998.

Manufacturers are also eligible for sales tax exemptions for the construction or remodeling of existing facilities in distressed areas. For remodeling to qualify, there must be an increase in production capacity. A Special Notice listing those areas is attached to this notice. To qualify for the program, the manufacturer must submit an application prior to the start of construction or remodeling. Construction of a new dental laboratory or expanding an existing laboratory could qualify under this program. The exemption would cover those areas of the facility devoted to manufacturing.

A third program is available to manufacturers located in distressed areas that increase their full-time employment by at least 15%. This program offers a one-time B&O tax credit of \$2,000 or \$4,000 per new employment position. The \$4,000 credit is available if the wages and fringe benefits of the new employee are more than \$40,000 per year. If the wages and fringe benefits are less than \$40,000 per year, the credit amount is \$2,000. As with the deferral/exemption program, the manufacturer must submit an application before hiring the eligible employee.

More information about these programs can be obtained from the Department of Revenue by calling the Telephone Information Center at 1-800-647-7706.

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